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Vincent Medical Holdings Limited

永勝醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1612)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020, RECOMMENDATION FOR DECLARATION OF FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

HIGHLIGHTS

- ✧ The COVID-19 pandemic has expedited the transformative journey of Vincent Medical to become one of the key global medical technology providers in respiratory area.
- ✧ Record-breaking financial performance for the year ended 31 December 2020 (“2020” or the “Year”):
 - Revenue increased by 130.1% to HK\$1,155.4 million, with revenue from respiratory products segment up by 285.6% to HK\$819.0 million.
 - Gross profit increased by 205.1% to HK\$494.2 million.
 - Overall gross profit margin up by 10.5 percentage points (“ppts”) to 42.8%, driven by significant sales growth of the inspired™ respiratory devices and consumables. Gross profit margin of the respiratory products segment increased from 33.5% to 47.9%.
 - Profit attributable to owners of the Company surged by 17.8 times to HK\$216.9 million. Net profit margin increased by 18.8 ppts to 21.4%.
 - Basic earnings per share increased by 1,769.6% to HK33.84 cents.
- ✧ Declared the payment of a final dividend of HK11.0 cents per share for 2020 (2019: HK1.10 cents per share) to be payable on or around Friday, 18 June 2021.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Vincent Medical Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019 (“**2019**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | <i>Note</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--------------------------------------|-------------|--------------------------------|-------------------------|
| Revenue | 4 | 1,155,383 | 502,200 |
| Cost of sales | | <u>(661,146)</u> | <u>(340,193)</u> |
| Gross profit | | 494,237 | 162,007 |
| Other income, other gains and losses | 5 | (5,005) | (4,447) |
| Selling and distribution expenses | | (54,727) | (32,119) |
| Administrative expenses | | <u>(142,273)</u> | <u>(101,836)</u> |
| Profit from operations | | 292,232 | 23,605 |
| Finance costs | 7 | (3,395) | (2,857) |
| Share of losses of associates | | (3,145) | (1,068) |
| Share of losses of joint ventures | | <u>(1,608)</u> | <u>(1,386)</u> |
| Profit before tax | | 284,084 | 18,294 |
| Income tax expense | 8 | <u>(36,649)</u> | <u>(5,437)</u> |
| Profit for the year | 9 | <u>247,435</u> | <u>12,857</u> |
| Attributable to: | | | |
| Owners of the Company | | 216,865 | 11,525 |
| Non-controlling interests | | <u>30,570</u> | <u>1,332</u> |
| | | <u>247,435</u> | <u>12,857</u> |
| Earnings per share | 11 | | |
| Basic | | <u>HK33.84 cents</u> | <u>HK1.81 cents</u> |
| Diluted | | <u>HK33.29 cents</u> | <u>n/a</u> |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2020

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Profit for the year | <u>247,435</u> | <u>12,857</u> |
| Other comprehensive income: | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | |
| Fair value changes of equity investments at fair value through other comprehensive income (“FVTOCI”) | <u>3,235</u> | <u>(21,105)</u> |
| <i>Items that may be reclassified to profit or loss:</i> | | |
| Exchange differences on translating foreign operations | 21,704 | (4,939) |
| Share of other comprehensive income of associates and joint ventures | <u>–</u> | <u>40</u> |
| | <u>21,704</u> | <u>(4,899)</u> |
| Other comprehensive income for the year, net of tax | <u>24,939</u> | <u>(26,004)</u> |
| Total comprehensive income for the year | <u><u>272,374</u></u> | <u><u>(13,147)</u></u> |
| Attributable to: | | |
| Owners of the Company | 238,646 | (13,904) |
| Non-controlling interests | <u>33,728</u> | <u>757</u> |
| | <u><u>272,374</u></u> | <u><u>(13,147)</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

| | <i>Note</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 111,088 | 68,732 |
| Right-of-use assets | | 14,717 | 21,408 |
| Goodwill | | – | – |
| Other intangible assets | | 28,365 | 31,123 |
| Investments in associates | | 9,296 | 5,204 |
| Investments in joint ventures | | 11,181 | 17,027 |
| Equity investments at FVTOCI | | 45,782 | 43,199 |
| Deferred tax assets | | 2,014 | 1,892 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 222,443 | 188,585 |
| Current assets | | | |
| Inventories | | 278,683 | 118,544 |
| Trade receivables | 12 | 161,542 | 112,707 |
| Contract assets | | 20,169 | 12,991 |
| Prepayments, deposits and other receivables | | 94,962 | 67,541 |
| Bank and cash balances | | 169,068 | 69,951 |
| | | <hr/> | <hr/> |
| Total current assets | | 724,424 | 381,734 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS | | 946,867 | 570,319 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY AND LIABILITIES | | | |
| Share capital | 14 | 6,506 | 6,377 |
| Reserves | | 605,051 | 346,074 |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 611,557 | 352,451 |
| Non-controlling interests | | (6,378) | 61,696 |
| | | <hr/> | <hr/> |
| Total equity | | 605,179 | 414,147 |
| | | <hr/> | <hr/> |

| | <i>Note</i> | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------------|--------------------------------|------------------|
| Non-current liabilities | | | |
| Lease liabilities | | 1,190 | 11,528 |
| Deferred tax liabilities | | 9,553 | 5,830 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 10,743 | 17,358 |
| | | <hr/> | <hr/> |
| Current liabilities | | | |
| Trade payables | 13 | 88,566 | 43,277 |
| Other payables and accruals | | 136,061 | 41,899 |
| Lease liabilities | | 14,430 | 10,675 |
| Borrowings | | 69,071 | 30,598 |
| Current tax liabilities | | 22,817 | 12,365 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 330,945 | 138,814 |
| | | <hr/> | <hr/> |
| TOTAL EQUITY AND LIABILITIES | | 946,867 | 570,319 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Net current assets | | 393,479 | 242,920 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Total assets less current liabilities | | 615,922 | 431,505 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 19 November 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of its principal place of business is Flat B2, 7/F., Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong. The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing, trading and research and development of medical devices.

In the opinion of the Directors, Vincent Raya International Limited, a company incorporated in the British Virgin Islands, is the ultimate parent of the Company. Mr. Choi Man Shing and Ms. Liu Pui Ching are the ultimate controlling parties of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 below provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---------------------------------|--------------------------|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments had no impact on the consolidated financial statements.

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. The application of the amendments had no impact on the consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 |
| Amendments to HKFRS 3 Reference to the Conceptual Framework | 1 January 2022 |
| Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use | 1 January 2022 |
| Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract | 1 January 2022 |
| Annual Improvements to HKFRSs 2018 – 2020 Cycle | 1 January 2022 |
| Amendments to HKAS 1 Classification of liabilities as current or non-current | 1 January 2023 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE

The Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by product category, geographical market and timing of revenue recognition.

| | OEM | | OBM | | Total | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
| By product category | | | | | | |
| Respiratory products | 291,657 | 97,815 | 527,360 | 114,546 | 819,017 | 212,361 |
| Imaging disposable products | 199,498 | 157,149 | – | – | 199,498 | 157,149 |
| Orthopaedic and rehabilitation products | 54,334 | 70,910 | 8,729 | 11,271 | 63,063 | 82,181 |
| Other products | 73,805 | 50,509 | – | – | 73,805 | 50,509 |
| | <u>619,294</u> | <u>376,383</u> | <u>536,089</u> | <u>125,817</u> | <u>1,155,383</u> | <u>502,200</u> |
| By geographical market | | | | | | |
| The United States (the "US") | 516,537 | 313,563 | 22,234 | 5,800 | 538,771 | 319,363 |
| The People's Republic of China (the "PRC") | – | – | 202,432 | 66,356 | 202,432 | 66,356 |
| India | – | – | 71,335 | 3,016 | 71,335 | 3,016 |
| Saudi Arabia | – | – | 58,705 | 287 | 58,705 | 287 |
| Israel | 34,977 | 3,001 | 8,173 | 2,744 | 43,150 | 5,745 |
| Turkey | – | – | 34,518 | 2,890 | 34,518 | 2,890 |
| Japan | 10,055 | 13,890 | 18,143 | 6,408 | 28,198 | 20,298 |
| The Netherlands | 25,713 | 15,387 | 624 | – | 26,337 | 15,387 |
| Great Britain | – | – | 24,739 | 4,798 | 24,739 | 4,798 |
| Australia | 13,352 | 18,186 | 2,068 | 1,852 | 15,420 | 20,038 |
| South Africa | – | – | 12,756 | 546 | 12,756 | 546 |
| Others | 18,660 | 12,356 | 80,362 | 31,120 | 99,022 | 43,476 |
| | <u>619,294</u> | <u>376,383</u> | <u>536,089</u> | <u>125,817</u> | <u>1,155,383</u> | <u>502,200</u> |
| By timing of recognition | | | | | | |
| Products transferred at a point in time | 419,796 | 219,234 | 536,089 | 125,817 | 955,885 | 345,051 |
| Products transferred over time | 199,498 | 157,149 | – | – | 199,498 | 157,149 |
| | <u>619,294</u> | <u>376,383</u> | <u>536,089</u> | <u>125,817</u> | <u>1,155,383</u> | <u>502,200</u> |

The following table provides information about receivables and contract assets from contracts with customers:

| | 2020 | 2019 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Receivables, which included in “trade receivables” | 161,542 | 112,707 |
| Contract assets | 20,169 | 12,991 |

Contract assets primarily consist of unbilled amount resulting from sales of OEM products transferred over time. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

There were no significant changes in the contract assets balances during the reporting period.

5. OTHER INCOME, OTHER GAINS AND LOSSES

| | 2020 | 2019 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Other income | | |
| Government subsidies (<i>Note</i>) | 11,691 | 2,954 |
| Interest income – bank deposits | 117 | 104 |
| Interest income – trade and other receivables | 111 | 270 |
| Sundry income | 5,682 | 2,603 |
| | 17,601 | 5,931 |
| Other gains and losses | | |
| Exchange losses, net | (8,738) | (676) |
| Impairment of goodwill | – | (1,670) |
| Impairment of investment in an associate | (1,806) | (5,649) |
| Impairment of investment in a joint venture | (5,254) | (2,236) |
| Impairment of other intangible assets | (3,400) | – |
| Impairment of property, plant and equipment | (600) | – |
| Impairment of trade receivables | (82) | (93) |
| Write off of other intangible assets | (1,591) | – |
| Write off of property, plant and equipment | (1,135) | (54) |
| | (22,606) | (10,378) |
| Total | (5,005) | (4,447) |

Note:

During the Year, the Group recognised government grants of approximately HK\$2.2 million in respect of the COVID-19 Anti-epidemic Fund under the Employment Support Scheme of the Government of the Hong Kong Special Administrative Region (the “**Hong Kong Government**”). Other government subsidies mainly related to the subsidies received from the local government authority for the achievements accomplished by the Group.

6. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Group that makes strategic and operating decisions.

Directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. From business model perspective, management assesses the performance of two operating segments, which are original equipment manufacturing (“OEM”) and original brand manufacturing (“OBM”).

- OEM represents the manufacturing of products in accordance with the customer’s specification for sale under the customer’s or third party’s brand.
- OBM, comprises research, development, manufacturing, marketing and sales of medical devices under “Inspired Medical”, “inspired™”, “Hand of Hope” and “Hypnus™” brands.

Segment profits or losses do not include interest income, interest expenses, share-based payments, share of losses of associates, share of losses of joint ventures, impairment of investment in an associate, impairment of investment in a joint venture, corporate income and corporate expenses.

Segment assets and liabilities of the Group are not reported to the directors of the Group regularly. As a result, reportable segment assets and liabilities have not been presented in the consolidated financial statements.

Information about reportable segment profit or loss:

| | OEM <i>HK\$’000</i> | OBM <i>HK\$’000</i> | Total <i>HK\$’000</i> |
|---|------------------------|------------------------|--------------------------|
| Year ended 31 December 2020 | | | |
| Revenue from external customers | 619,294 | 536,089 | 1,155,383 |
| Segment profit | 164,467 | 131,567 | 296,034 |
| Depreciation and amortisation | 14,126 | 22,890 | 37,016 |
| Impairment of other intangible assets | – | 3,400 | 3,400 |
| Impairment of property, plant and equipment | – | 600 | 600 |
| Impairment of trade receivables | – | 82 | 82 |
| Provision for warranties | – | 37,355 | 37,355 |
| Write off of other intangible assets | – | 1,591 | 1,591 |
| Write off of property, plant and equipment | 270 | 865 | 1,135 |
| | <u> </u> | <u> </u> | <u> </u> |
| Year ended 31 December 2019 | | | |
| Revenue from external customers | 376,383 | 125,817 | 502,200 |
| Segment profit/(loss) | 58,566 | (24,131) | 34,435 |
| Depreciation and amortisation | 14,725 | 13,828 | 28,553 |
| Impairment of goodwill | – | 1,670 | 1,670 |
| Impairment of trade receivables | 52 | 41 | 93 |
| | <u> </u> | <u> </u> | <u> </u> |

Reconciliation of reportable segment revenue and profit or loss:

| | 2020 | 2019 |
|---|------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | | |
| Total revenue of reportable segments | 1,155,383 | 502,200 |
| Profit or loss | | |
| Total profit or loss of reportable segments | 296,034 | 34,435 |
| Interest income | 228 | 374 |
| Interest expenses | (3,395) | (2,857) |
| Share-based payments | (928) | (2,106) |
| Share of losses of associates | (3,145) | (1,068) |
| Share of losses of joint ventures | (1,608) | (1,386) |
| Impairment of investment in an associate | (1,806) | (5,649) |
| Impairment of investment in a joint venture | (5,254) | (2,236) |
| Corporate income | 14,348 | 2,603 |
| Corporate expenses | (10,390) | (3,816) |
| Consolidated profit before tax | 284,084 | 18,294 |

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

| | Revenue | |
|-----------------|------------------|-----------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The US | 538,771 | 319,363 |
| The PRC | 202,432 | 66,356 |
| India | 71,335 | 3,016 |
| Saudi Arabia | 58,705 | 287 |
| Israel | 43,150 | 5,745 |
| Turkey | 34,518 | 2,890 |
| Japan | 28,198 | 20,298 |
| The Netherlands | 26,337 | 15,387 |
| Great Britain | 24,739 | 4,798 |
| Australia | 15,420 | 20,038 |
| South Africa | 12,756 | 546 |
| Others | 99,022 | 43,476 |
| | 1,155,383 | 502,200 |

| | Non-current assets | |
|-----------|---------------------------|-----------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong | 20,169 | 27,644 |
| The PRC | 144,330 | 109,370 |
| Spain | 1,484 | 3,556 |
| Japan | 2,114 | 2,924 |
| The US | 6,550 | – |
| | <u>174,647</u> | <u>143,494</u> |

Revenue from major customers:

| | 2020 | 2019 |
|----------------------------|-----------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| OEM segment | | |
| Customer A | 213,673 | 163,403 |
| Customer B (<i>Note</i>) | n/a | 79,287 |
| | <u>213,673</u> | <u>242,690</u> |

Note:

Revenue from customer B represented less than 10% of the Group's revenue for the year ended 31 December 2020.

7. FINANCE COSTS

| | 2020 | 2019 |
|--|---------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest expenses on lease liabilities | 1,243 | 1,751 |
| Interest on borrowings | 2,152 | 1,106 |
| | <u>3,395</u> | <u>2,857</u> |

8. INCOME TAX EXPENSE

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-------------------------------------|--------------------------------|-------------------------|
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | 18,133 | 2,715 |
| Over-provision in prior years | <u>–</u> | <u>(30)</u> |
| | 18,133 | 2,685 |
| Current tax – the PRC | | |
| Provision for the year | 15,262 | 1,787 |
| Under-provision in prior years | <u>–</u> | <u>138</u> |
| | 15,262 | 1,925 |
| Deferred tax | <u>3,254</u> | <u>827</u> |
| Income tax expense | <u>36,649</u> | <u>5,437</u> |

Under the two-tiered profits tax rates regime, profits tax rate for the first HK\$2.0 million of assessable profits of qualifying group entity established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a rate of 16.5%.

Under the Corporate Income Tax Law of the PRC which became effective from 1 January 2008, the standard corporate income tax rate is 25% except Vincent Medical (Dongguan) Mfg. Co. Ltd. (東莞永勝醫療製品有限公司) (“VMDG”) which is qualified as High and New Tech Enterprise and would be entitled to a reduced corporate income tax rate of 15%. The relevant tax rates of the Company’s PRC subsidiaries range from 15% to 25%.

9. PROFIT FOR THE YEAR

The Group's profit for the Year is stated after charging/(crediting) the following:

| | 2020 | 2019 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Allowance/(reversal of allowance) for inventories (included in cost of inventories sold) | 9,198 | (419) |
| Amortisation | 6,416 | 3,577 |
| Auditor's remuneration | 1,957 | 1,595 |
| Cost of inventories sold | 661,146 | 340,193 |
| Depreciation of property, plant and equipment | 17,015 | 14,477 |
| Depreciation of right-of-use assets | 13,585 | 10,499 |
| Equity-settled share-based payments | 928 | 2,106 |
| Impairment of goodwill (included in other gains and losses) | – | 1,670 |
| Impairment of investment in an associate (included in other gains and losses) | 1,806 | 5,649 |
| Impairment of investment in a joint venture (included in other gains and losses) | 5,254 | 2,236 |
| Impairment of other intangible assets (included in other gains and losses) | 3,400 | – |
| Impairment of property, plant and equipment (included in other gains and losses) | 600 | – |
| Impairment of trade receivables (included in other gains and losses) | 82 | 93 |
| Provision for warranties (included in cost of inventories sold) | 37,355 | – |
| Research and development expenditure | 36,577 | 29,742 |
| Staff costs including directors' emoluments | 244,231 | 151,846 |
| Write off of inventories (included in cost of inventories sold) | – | 2,864 |
| Write off of other intangible assets (included in other gains and losses) | 1,591 | – |
| Write off of property, plant and equipment (included in other gains and losses) | 1,135 | 54 |

Cost of inventories sold include staff costs of approximately HK\$174,772,000 (2019: HK\$84,295,000), depreciation of property, plant and equipment of approximately HK\$11,693,000 (2019: HK\$9,833,000), depreciation of right-of-use assets of approximately HK\$7,604,000 (2019: HK\$4,573,000), and amortisation of approximately HK\$2,270,000 (2019: HK\$767,000), which are included in the amounts disclosed separately.

Research and development expenditure include staff costs of approximately HK\$13,451,000 (2019: HK\$13,771,000), and depreciation of approximately HK\$906,000 (2019: HK\$554,000), which are included in the amounts disclosed separately.

10. DIVIDEND

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| 2019 final dividend of HK1.10 cents (2019: 2018 final dividend of HK1.60 cents) per ordinary share | <u>7,014</u> | <u>10,202</u> |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2020 of HK11.0 cents per share has been proposed by the Directors and is subject to approval by the shareholders of the Company (the “Shareholders”) at the forthcoming annual general meeting to be held on 18 May 2021 (the “AGM”).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Earnings | | |
| Profit attributable to owners of the Company | <u>216,865</u> | <u>11,525</u> |
| | <i>'000</i> | <i>'000</i> |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 640,857 | 637,650 |
| Effect of dilutive potential ordinary shares arising from share options issued by the Company (<i>Note</i>) | <u>10,574</u> | <u>n/a</u> |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | <u>651,431</u> | <u>n/a</u> |

Note:

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2019.

12. TRADE RECEIVABLES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Trade receivables | 161,736 | 112,992 |
| Less: allowance for doubtful debts | (194) | (285) |
| | <u>161,542</u> | <u>112,707</u> |

The general credit terms of the Group granted to its customers range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0 to 30 days | 64,959 | 26,905 |
| 31 to 60 days | 46,363 | 24,548 |
| 61 to 90 days | 20,828 | 28,712 |
| Over 90 days | 29,392 | 32,542 |
| | <u>161,542</u> | <u>112,707</u> |

13. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0 to 30 days | 46,786 | 24,508 |
| 31 to 61 days | 22,977 | 7,795 |
| Over 60 days | 18,803 | 10,974 |
| | <u>88,566</u> | <u>43,277</u> |

14. SHARE CAPITAL

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Authorised | | |
| 10,000,000,000 ordinary shares of HK\$0.01 each | <u>100,000</u> | <u>100,000</u> |
| Issued and fully paid | | |
| 650,598,000 (2019: 637,650,000) ordinary shares of HK\$0.01 each | <u>6,506</u> | <u>6,377</u> |

A summary of the movements in the issued share capital of the Company is as follows:

| | Number of shares | Nominal value of shares issued <i>HK\$'000</i> |
|--|--------------------|---|
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 637,650,000 | 6,377 |
| Shares issued under share option schemes (<i>Note</i>) | <u>12,948,000</u> | <u>129</u> |
| At 31 December 2020 | <u>650,598,000</u> | <u>6,506</u> |

Note:

In July to December 2020, 12,948,000 shares were issued under the share option schemes at a subscription price of HK\$0.80 per share for a total cash consideration of approximately HK\$10,358,000.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, we saw the ongoing COVID-19 pandemic affecting every part of the world. The subsequent needs to prevent, control, diagnose and treat COVID-19 patients had stimulated the global demand for medical resources especially on the respiratory area. However, other outpatient visits and elective surgeries were postponed, altogether reshaping the landscape of the global healthcare market.

Despite the operational challenges caused by COVID-19 during the Year, Vincent Medical adhered to its mission of putting patients first and has worked relentlessly to expand its production capabilities, while introducing new devices that can address the needs of customers and partners in fighting the pandemic.

Leveraging the Group's over 20 years of experience in respiratory humidification, as well as its agile manufacturing operations and patented technologies, it successfully took on COVID-19 as an opportunity, and has since transformed into one of the key global medical technology providers in the respiratory area. The Group is now proudly serving its products and solutions in over 80 countries and regions.

Respiratory products segment

| | For the year ended 31 December | | Change |
|----------------------------|--------------------------------|------------------|------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | |
| O2FLO | 111,346 | 1,101 | +10,013.2% |
| O2FLO disposables | 93,478 | 293 | +31,803.8% |
| VHB Humidifier | 93,902 | 6,988 | +1,243.8% |
| VHB Humidifier disposables | 101,100 | 33,919 | +198.1% |
| Other respiratory products | 127,534 | 72,245 | +76.5% |
| OEM respiratory products | 291,657 | 97,815 | +198.2% |
| Total | <u>819,017</u> | <u>212,361</u> | +285.6% |

Revenue from the respiratory products segment soared by 285.6% to HK\$819.0 million (2019: HK\$212.4 million) primarily driven by the rising global demand for respiratory devices, as well as the growth in disposables sales benefited from the increasing number of installed base of the inspired™ O2FLO high flow respiratory humidifier (the “**O2FLO**”), a standalone nasal high-flow therapy device with dedicated disposables, and the inspired™ VHB series humidifiers (the “**VHB Humidifier**”) in the existing and new markets. During the Year, the Group also received one-time order of respiratory disposables from major ventilator companies and governments for national stockpile, which was amounted to approximately HK\$175.0 million.

Gross profit margin of the respiratory products segment increased from 33.5% to 47.9%, primarily attributable to the launch of the O2FLO and higher sales volume of disposables for ventilators.

O2FLO

The inspired™ O2FLO was launched in November 2018 in Japan and when it received its CE (Conformité Européenne) in November 2019, it was subsequently launched to other areas and able to capture an installed base of over 13,000 units in major markets including India, Saudi Arabia, South Africa, the PRC, Turkey and Kazakhstan.

High flow oxygen therapy has gained widespread awareness among healthcare practitioners as well as the general public, as it is now being used in treating COVID-19 patients. It has also been proven in multiple clinically studies that high flow oxygen therapy can have a wide spectrum of potential applications in treating diseases such as acute hypoxemic respiratory failure, acute hypercarbic respiratory failure, post-extubation, pre-intubation oxygenation, acute heart failure and even sleep apnea. For the use of O2FLO, it requires the adoption of dedicated single-use disposables such as humidification chambers, nasal cannula, breathing circuits and filters, in order to deliver the optimal airflow to patients. During the Year, revenue generated from the sales of O2FLO surged to HK\$111.3 million (2019: HK\$1.1 million), with the sales of O2FLO's dedicated disposables and accessories reaching HK\$93.5 million (2019: HK\$0.2 million).

VHB Humidifier

With the increased utilisation of invasive mechanical ventilator, the active humidification system, which is necessary for hospital-use mechanical ventilators, was also benefited from the trend. Supported by the related disposables including humidification chambers, breathing circuits and filters, the VHB Humidifier provides warm and humidified air to intubated patients, and is a standard of care in mechanical ventilation. For patients who are critically ill and require the support of ventilators, the VHB Humidifier also serves as the servo feedback system which is a critical part of the life supporting system.

During the Year, the Group has entered into long-term collaborations with a number of world's leading ventilator makers in supplying its VHB Humidifiers with tailor-made features. In 2020, revenue generated from the sales of VHB Humidifiers increased by 1,243.8% to HK\$93.9 million (2019: HK\$7.0 million), and sales from the related disposables also recorded a significant growth of 198.1% to HK\$101.1 million (2019: HK\$33.9 million).

Other respiratory products

The Group's other respiratory products include a wide range of respiratory disposables including breathing circuits (the inspired IIC™ circuit, single limb circuit, dual limb circuit and heater wire circuit), filters (HEPA (high-efficiency particulate air), HME (heat and moisture exchanger) and bacterial/viral respirator), humidification chambers and patient interface and the Hypnus™ positive airway pressure device. During the Year, the sales of other respiratory products increased by 76.5% to HK\$127.5 million, attributable to the strong market demand for the Group's respiratory disposables and product registration obtained in new markets. The Hypnus™ positive airway pressure devices recorded a growth in sales to HK\$29.8 million (2019: HK\$11.4 million).

OEM respiratory products

For the Year, the sales of OEM respiratory products rose by 198.2% to HK\$291.7 million (2019: HK\$97.8 million). The sharp increase was directly linked to the increase in order intake of respiratory disposables as a result of COVID-19 outbreak.

Imaging disposable products segment

The Group manufactured and sold its imaging disposable products on an OEM basis only. Its products include a wide range of imaging CMPI (colour magnetic particle imaging) syringes and accessory products for CT (computed tomography) and MRI (magnetic resonance imaging). During the Year, the Group awarded with new OEM projects on the development and production of certain new CT injector consumables. Supported by the stable raw materials supply during the Year, revenue from imaging disposable products increased by 27.0% from HK\$157.1 million to HK\$199.5 million. Segment gross margin also strengthened from 30.1% to 31.6% due to the increase in production efficiency.

Orthopaedic and rehabilitation products segment

| | For the year ended 31 December | | Change |
|---|--------------------------------|-----------------|--------|
| | 2020 | 2019 | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| OBM orthopaedic and rehabilitation products | 8,729 | 11,271 | -22.6% |
| OEM orthopaedic and rehabilitation products | 54,334 | 70,910 | -23.4% |
| Total | 63,063 | 82,181 | -23.3% |

During the Year, revenue from orthopaedic and rehabilitation products segment decreased by 23.3% from HK\$82.2 million to HK\$63.1 million, primarily due to the temporary shift of medical resources to the treatment of COVID-19. In addition, many non-urgent surgical procedures and the relevant marketing activities in the orthopaedic space were suspended in the first half of 2020, which had led to a softer demand for the relevant devices. Despite the above, the Group is pleased to report that the Hand of Hope robotic hand has been included in the National Health Insurance Service of South Korea since 2020 for rehabilitation treatment. This has driven the sales of the device to hospitals in South Korea.

Segment gross profit margin decreased to 34.2% from 37.1% mainly due to lower sales volume.

Other products

Other products include infusion regulators, moulds, surgical disposables, patient warming blankets and plastic disposable products. Revenue from other products increased by 46.1% from HK\$50.5 million to HK\$73.8 million, mainly attributable to higher sales of surgical disposables and patient warming blankets, as well as the increasing revenue from molding service.

Investments and collaboration

Inspired Medical Japan Co., Limited, a subsidiary of the Company in Japan, contributed positively to the Group's profit in its first full year of operation through building deeper relationships with the customers in Japan and created cross selling opportunities. The Group's regulatory efficiencies and access in Japan had also greatly improved with new products registered during the Year. The Group is now in a stronger position to increase revenue from Japan, particularly from the sales of inspired™ products, as well as to take advantage of a number of new opportunities for distributed products in the market.

The Ventway Sparrow® ventilator of Inovytec Medical Solutions Ltd. (“**Inovytec**”) received positive market feedback and significant order intake in 2020, as it was chosen to combat COVID-19 in Italy, Spain, the United Kingdom, South-Africa, Russia and Israel. Weighing only 1 kg, the Ventway Sparrow® delivers high-performance ventilation to all patients under both invasive ventilation and noninvasive ventilation settings. Following the Food and Drug Administration of the US (“**FDA**”)’s EUA (emergency use authorisation) received in March 2020, the machine obtained FDA 510(k) clearance in February 2021, this opens the way for Inovytec to introduce its unique device technology to the US market and is now available in the US through its distributors.

Fresca Medical, Inc. (“**Fresca**”) has secured all of the US regulatory and reimbursement approvals necessary to market its Somnera™ System in the US market, with the product making maiden revenue contribution during the Year. Used in the treatment of obstructive sleep apnea, the Somnera™ System is different from the traditional CPAP (continuous positive airway pressure) therapy, as it eliminates the need of a humidifier and uses light connector hose. It is one of the most portable sleep machines for home and travel use. As the new obstructive sleep apnea diagnosis activity in the US is gradually normalised, the Group expects to see sales growth of the Somnera™ System in 2021.

Despite the outbreak of COVID-19 in the PRC during the first half of 2020, 廣州愛牽掛數字科技有限公司 (formerly known as “廣州柏頤信息科技有限公司” and translated as “Guangzhou 100ecare Technology Co. Ltd.”, “**100ecare**”) generated a total revenue of Renminbi (“**RMB**”) 15.7 million in 2020, representing a slight decrease of 5.1% when compared with that of 2019. In response to the needs of infection prevention and control, 100ecare developed the S6T, a temperature monitoring bracelet and the T007, a smart temperature and location tracking device, all operating within a cloud-based management platform. Both of the smart devices were included in the “National Smart Health Care Product Catalog”, and the 100ecare service platform was also included in the “National Smart Health Care Services Catalog”. In addition, 100ecare was recognised by the PRC government as one of the country’s “Pilot Company in Smart Health Care Application”. The Group expects 100ecare to resume revenue growth in 2021.

OUTLOOK

The Group's business performance in 2020 is a testament to its solid business foundation, robust business model as well as agile operations by swiftly adapting to new situations. Yet, the COVID-19 pandemic has not only transformed Vincent Medical, but also the global healthcare system. Although the Group expects that there will be a year-over-year decrease in sales of respiratory devices in 2021 given the dramatic increase in demand that we saw in 2020 and with limited budget from hospitals globally, we believe that on a longer term into the post COVID-19 era, there will be an increasing attention on high flow respiratory treatment, prevention of respiratory diseases and greater awareness of high flow technology beyond the Intensive Care Unit. Supported by its over 20 years of experience in the respiratory and humidification areas, along with its growing product portfolio, extensive distribution network and solid financial position, Vincent Medical is well-positioned to capture future market opportunities.

Looking ahead, the Group will continue to embrace its "device + disposables" growth strategy to further expand installed base, and expect to derive increasing recurring income from its dedicated disposables along with an expanding installed base of devices. The Group sees a strong intention for hospitals to look for alternatives in device replacement that could greatly reduce capital expenditure and boost equipment usage.

To penetrate to a large and growing addressable patient population that encompasses the spectrum of respiratory disease, the Group is looking to launch an additional range of O2FLO device thus increasing the family of high flow devices. These new devices can be applied to a broader range of healthcare situations (e.g. anesthesia and surgery) with enhanced clinical benefits for bariatric patients. The Group will also launch a series of dedicated disposables for its entire O2FLO family, including the smoothbore heater wire circuits and new nasal prongs, in order to penetrate a wider adoption with growing functionality. In addition, the Group will work diligently to prepare a comprehensive 510(k) filing for its O2FLO and VHB Humidifier devices.

Other than new devices, new consumables and new registration of existing devices, the Group will further increase market penetration through its close relationship with its customers and global partners. COVID-19 has allowed the Group to evolve into a key supplier to major global respiratory companies. The Group is now in discussion with existing partners to expand collaboration in both product range and geographical coverage. New business collaborations with established partners, along with their respective expansive distribution network, should lay a solid foundation for devices' installed base and hence consumables sales.

With its headquarter in Hong Kong and production and research and development ("R&D") facilities strategically located in Dongguan, the Group is poised to ride on the new opportunities brought by the Greater Bay Area development strategy and the dual circulation economic strategy. In 2021, the Group is on the lookout for expanding its footprint in the Greater Bay Area by identifying partnership opportunities with local medical players with a focus on connected healthcare services to fuel our sustainable growth in the Greater Bay Area.

On R&D, the Group will continue to innovate and broaden its product portfolio to cover both hospital and homecare, essentially leveraging the Group's core competency in respiratory technologies to tap into the rather underserved markets. One of the Group's R&D focus in 2021 will be on connected care and cloud-based development support. The Group believes that software investments will underpin its long-term growth, and could also accelerate the adoption of remote patient monitoring programs and new markets penetration for its devices. As at 31 December 2020, the Group owned approximately 140 patents and applications. In addition, the Group also owns rights to an array of patented and patent-pending technologies in the respiratory and orthopaedic areas.

While the Group pays much attention on product and market development, the top priority for everyone at Vincent Medical has always been product quality. The Group is committed to further enhancing its quality management system in 2021, in order to ensure that the devices are able to meet the most stringent standards in countries where we participate. Additional resources will also be placed on the preparation for the new European Union regulation for the medical device industry (EU MDR) and strengthening of its NMPA (National Medical Products Administration in the PRC) registration capabilities for new products.

All in all, despite the uncertainty of the COVID-19 pandemic, the Group's commitment to creating values for all stakeholders remains. The Group believes that 2020 was a major opportunity to fuel the ready foundation for growth which it has been preparing for. The Group has proven its ability to capture the opportunity and this is only the beginning, and supported by the new product launch in 2021 and beyond, the Group is confident to achieve continuous long-term organic growth, and is looking to become a global leader in respiratory care in the future.

FINANCIAL REVIEW

REVENUE

Total revenue reached HK\$1,155.4 million (2019: HK\$502.2 million), representing an increase of 130.1% year-on-year. The growth reflects the strong market demand for the Group's respiratory devices and disposables, as a result of the COVID-19 pandemic, the launch of new products and successful expansion to new markets.

In terms of geographical market, the Group's revenue contribution became increasingly diversified, with the US and the PRC, the two largest markets of medical devices globally, each accounted for 46.6% (2019: 63.6%) and 17.5% (2019: 13.2%) of the Group's total revenue in 2020. Respiratory products sales in India, Saudi Arabia and Israel also enjoyed significant growth of 2,265.2%, 20,354.7% and 651.1%, respectively. Japan market remained robust and grew faster than previous years.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by 205.1% to HK\$494.2 million (2019: HK\$162.0 million), as a result of the growing revenue and expanding margins. Gross profit margin increased from 32.3% to 42.8% in 2020, as a result of an improving product mix with much stronger sales coming from inspired™ respiratory devices and disposables, along with greater economies of scale due to the expansion in production scale.

OTHER INCOME, OTHER GAINS AND LOSSES

Other income of HK\$17.6 million (2019: HK\$5.9 million) mainly comprises the subsidy from the "Direct Subsidy for Securing Emergency Medical Resources 2020" program as promulgated by the State Council of the PRC, as well as the COVID-19 Anti-epidemic Fund under the Employment Support Scheme of the Hong Kong Government.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 70.4% to HK\$54.7 million (2019: 32.1 million), with its percentage of revenue decreasing to 4.7% (2019: 6.4%), reflecting a more cost-effective operation.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 39.8% to HK\$142.3 million (2019: HK\$101.8 million), primarily attributable to (i) the increase in R&D expenses, (ii) higher personnel-related expenses due to the increasing number of staff, (iii) general increase in average salary, as well as (iv) incentives to reward better operational performance. Despite the increase in net amount, administrative expenses for the Year accounted for only 12.3% of revenue (2019: 20.3%).

SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURES

The Group shared losses of associates amounted to HK\$3.1 million (2019: losses of HK\$1.1 million) and losses of joint ventures amounted to HK\$1.6 million (2019: losses of HK\$1.4 million), reflected mainly by the share of results of Fresca, Retraction Limited (“**Retraction**”), 100ecare and Avalon Photonics Holdings Limited (“**Avalon**”).

INCOME TAX EXPENSE

For the year ended 31 December 2020, the Group’s income tax expense was HK\$36.6 million (2019: HK\$5.4 million). The effective tax rate was 12.9% for the Year, which was lower than the PRC statutory income tax rate of 25% and the Hong Kong statutory income tax rate of 16.5%. This is mainly due to the fact that one of the Group’s PRC subsidiaries was qualified as High and New Technology Enterprise, and was entitled to a preferential tax rate of 15%.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company was up by 17.8 times to HK\$216.9 million (2019: HK\$11.5 million), attributable primarily to the strong growth in revenue, greater economies of scale in production and effective control of expenses during the Year.

PROPERTY, PLANT AND EQUIPMENT

The Group incurred capital expenditure of HK\$54.7 million (2019: HK\$31.1 million) during the Year, which mainly included the purchase of additional machineries, tooling and equipment, and the addition of approximately 2,400 sq.m. of clean room production area for respiratory disposables. As at 31 December 2020, property, plant and equipment was HK\$111.1 million (2019: HK\$68.7 million).

RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at 31 December 2020, right-of-use assets and lease liabilities amounted to HK\$14.7 million (2019: HK\$21.4 million) and HK\$15.6 million (2019: HK\$22.2 million), respectively. The decrease was primarily attributable to the depreciation of right-of-use assets and lease payments.

INVENTORIES

Inventories as at 31 December 2020 was HK\$278.7 million (2019: HK\$118.5 million). The increase was mainly attributable to the additional safety stock of raw materials for respiratory products.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 December 2020, investments in associates amounted to HK\$9.3 million (2019: HK\$5.2 million), consisted of the Group's investments in Retraction, Celsius Medical, S.L. and Fresca. The increase was mainly due to the transfer of investment in Fresca from financial assets at FVTOCI to associate.

As at 31 December 2020, investments in joint ventures amounted to HK\$11.2 million (2019: HK\$17.0 million), consisted of the Group's investments in 100ecare and Avalon. The decrease was mainly due to the recognition of impairment loss of HK\$5.3 million for investment in Avalon during the Year (2019: HK\$2.2 million).

For details about the investments in Fresca and 100ecare, please refer to the paragraph headed "Significant Investments" below.

TRADE RECEIVABLES

Trade receivables as at 31 December 2020 was HK\$161.5 million (2019: HK\$112.7 million), which was in line with the higher sales during the Year.

HUMAN RESOURCES

As at 31 December 2020, the total number of full-time employees of the Group was 1,853 (2019: 1,149). The remuneration of employees was determined based on their job nature, their relevant experience, qualifications, result of operations of the Group and market condition. We offered senior management performance-based bonus and share options to reward and retain a high calibre management team. We also adopted commission and incentive plans to motivate and reward our sales and marketing staff.

During the Year, staff costs including Directors' emoluments (excluding capitalised salaries and wages of R&D staff) amounted to HK\$244.2 million (2019: HK\$151.8 million), representing 21.1% (2019: 30.2%) of the Group's revenue. The increase was mainly due to the increase in the number of employees, the upward salary adjustment and the increase in overtime pay, bonus and sales commission.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

Bank and cash balances as at 31 December 2020 was HK\$169.1 million (2019: HK\$70.0 million). This was a result of the net cash inflow from operating activities of HK\$204.5 million, net cash outflow from investing activities of HK\$62.3 million, net cash outflow from financing activities of HK\$59.5 million, and a positive effect of foreign exchange rate changes of HK\$16.4 million. Most of the bank and cash balances were denominated in HKD, US dollars (“USD”) and RMB.

As at 31 December 2020, total borrowings amounted to HK\$69.1 million (2019: HK\$30.6 million) with effective interest rates of about 1.48% to 4.60% per annum (2019: 4.53% to 4.80% per annum). The net gearing ratio, which was calculated on the basis of total borrowings divided by total equity attributable to owners of the Company, was 0.11 (2019: 0.09). As at 31 December 2020, the Group had unutilised bank facilities of HK\$24.0 million.

CAPITAL EXPENDITURE AND COMMITMENTS

During the Year, total investment in property, plant and equipment was HK\$54.7 million (2019: HK\$31.1 million), in which 79.0% was used for purchasing additional production equipment and the remaining balance for procurement of other fixed assets.

As at 31 December 2020, the Group had contracted capital commitments of HK\$19.3 million for procurement of property, plant and equipment and other intangible assets, which was mainly financed with internal resources.

CAPITAL STRUCTURE

As at 31 December 2020, the issued share capital of the Company was approximately HK\$6.5 million (2019: approximately HK\$6.4 million), comprising 650,598,000 Shares (2019: 637,650,000 Shares) of nominal value of HK\$0.01 per Share. The increase was attributable to the Shares issued under the pre-IPO share option scheme adopted by the Company on 17 June 2016 and the share option scheme adopted on 24 June 2016.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Company considered that the significant investments were as follows:

Equity investment at FVTOCI

| Name of company | Principal business | Approximate percentage of shareholding | Total investment | Fair value of the equity investment | | Assets ratio defined under the Listing Rules | |
|-----------------|---|--|---|--|---|--|------|
| | | | | 2020 | 2019 | 2020 | 2019 |
| Inovytec | An Israeli medical device company specialises in the development, production and marketing of devices for out-of-hospital critical care, respiratory, cardiac, central nervous system and trauma emergencies. | 13.68% | US\$3.0 million (equivalent to HK\$23.4 million) | US\$3.3 million (equivalent to HK\$25.3 million) | US\$1.9 million (equivalent to HK\$15.1 million) | 2.7% | 2.6% |

Investment in an associate

| Name of company | Principal business | Approximate percentage of shareholding | Total investment | Carrying amount of the investment for 2020 | Assets ratio defined under the Listing Rules | |
|-----------------|---|--|---|---|--|------|
| | | | | | 2020 | 2019 |
| Fresca | A US California-based sleep solution and connected health company that is developing a system for the treatment of obstructive sleep apnea. | 20.35% | US\$4.0 million (equivalent to HK\$31.2 million) | US\$0.85 million (equivalent to HK\$6.6 million) <i>(Note)</i> | 0.7% | 1.5% |

Note: During the Year, the investment in Fresca was transferred from financial assets at FVTOCI to associate. Its fair value of the equity investment at 31 December 2019 was US\$1.1 million (equivalent to HK\$8.6 million).

Investment in a joint venture

| Name of company | Principal business | Approximate percentage of shareholding | Total investment | Carrying amount of the investment | | Assets ratio defined under the Listing Rules | |
|-----------------|--|--|---|---|---|--|------|
| | | | | 2020 | 2019 | 2020 | 2019 |
| 100ecare | A PRC-based company specialises in design, development and sale of a series of wearable smart devices, and operate a cloud-based safety and healthcare platform targeting the elderly population in the PRC. | 9.41% | RMB8.0 million (equivalent to HK\$9.2 million) | RMB8.4 million (equivalent to HK\$10.0 million) | RMB8.4 million (equivalent to HK\$9.4 million) | 1.0% | 1.6% |

For additional information regarding the performance during the Year and prospects of the above significant investments, please refer to the paragraph headed “Investments and Collaboration” above.

As at 31 December 2020, the carrying amount of investment in 100ecare was HK\$10.0 million and asset ratio defined under the Listing Rules decreased to 1.0%, the Company no longer considers that the investment in 100ecare is significant in nature after 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Company entered into a memorandum of understanding dated 25 August 2020 and a share transfer agreement dated 30 October 2020 with Bayer Medical Care, Inc., whereby the Company (as the purchaser) conditionally agreed to acquire the 1,718,861 shares in VINCENT MEDICAL MANUFACTURING CO., LIMITED (永勝醫療製品有限公司, “VMHK”), representing approximately 19.90% of its issued shares, and 3.98% equity interest in VMDG from Bayer Medical Care, Inc. (as the seller) at the consideration of HK\$67,293,604 (the “**Consideration**”). Completion has taken place upon the payment of the Consideration on 30 October 2020. Accordingly, (i) VMHK and VMDG have become indirect wholly-owned subsidiaries of the Company; and (ii) Bayer Medical Care Inc. is no longer a connected person of the Company. For details, please refer to the Company’s announcements dated 25 August and 30 October 2020.

Saved as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries and associated companies.

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events after the reporting period up to the date of this announcement.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

While some of the Group's costs and expenses are denominated in RMB, there was a substantial amount of sales denominated in USD given the export-oriented nature of the business. Thus, any appreciation of RMB against USD may subject the Group to increased costs and lower profitability. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group's profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have other contingent liabilities.

ANNUAL GENERAL MEETING

The AGM is scheduled to be held on Tuesday, 18 May 2021. A notice convening the AGM, which constitutes part of the circular to the Shareholders, will be issued and disseminated to the Shareholders in due course.

FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK11.0 cents (2019: HK1.10 cents) per Share for the year ended 31 December 2020 to the Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 28 May 2021. The final dividend will be paid on or around Friday, 18 June 2021, subject to the Shareholders' approval at the AGM. No interim dividend was made for the six months ended 30 June 2020 (2019: HK Nil cent).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Tuesday, 18 May 2021, the register of members of the Company will be closed from Thursday, 13 May 2021 to Tuesday, 18 May 2021, both days inclusive, during which period no transfer of the Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 12 May 2021.

For determining the entitlement to the proposed final dividend (subject to the approval of the Shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 26 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of the Shares will be registered. In order to qualify for the proposed final dividend as stated, all transfers forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 25 May 2021.

CORPORATE GOVERNANCE

The Board is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of the Shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for the Shareholders. The Board is committed to continuously reviewing and improving the Group's corporate governance practices, and maintaining the highest standards of ethical corporate behaviour across the organisation.

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and risk management, and transparency and accountability to all Shareholders.

In the opinion of the Directors, the Company has complied with the code provision as set out in the CG Code throughout the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their transactions throughout the Year.

AUDIT COMMITTEE

The Company established the audit committee of the Company (the “**Audit Committee**”) with written terms of reference which deal clearly with its authority and duties. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Au Yu Chiu Steven, Mr. Mok Kwok Cheung Rupert and Prof. Yung Kai Leung.

The Group’s audited consolidated annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

The figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditor, RSM Hong Kong, to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by RSM Hong Kong on this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.vincentmedical.com>), respectively.

The annual report of the Company for the year ended 31 December 2020 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and available on above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contributions to our progress.

By Order of the Board
Vincent Medical Holdings Limited
Choi Man Shing
Chairman and Executive Director

Hong Kong, 23 March 2021

As at the date of this announcement, the Board of the Company comprises Mr. Choi Man Shing, Mr. To Ki Cheung, Mr. Koh Ming Fai and Mr. Fu Kwok Fu as executive Directors, Mr. Guo Pengcheng as a non-executive Director, and Mr. Mok Kwok Cheung Rupert, Mr. Au Yu Chiu Steven and Prof. Yung Kai Leung as independent non-executive Directors.